REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU-NATAL PROVINCIAL LEGISLATURE AND THE COUNCIL ON THE FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF UGU DISTRICT MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2009

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Ugu District Municipality which comprise the statement of financial position as at 30 June 2009, the statement of financial performance, the statement of changes in net assets and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages [xx] to [xx].

The accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the Standard of Generally Recognised Accounting Practices (Standards of GRAP) and in the manner required by the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Auditor-General's responsibility

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA) and section 126(3) of MFMA, my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with the International Standards on Auditing read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

6. Paragraph 11 *et seq*. of the Standards of GRAP, GRAP 1 *Presentation of Financial Statements* requires that financial reporting by entities shall provide information on whether resources were obtained and used in accordance with the legally adopted budget. As the budget reporting standard is not effective for this financial year, I have determined that my audit of any disclosures made by the Ugu District Municipality in this respect will be limited to reporting on non-compliance with this disclosure requirement.
7. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

8. In my opinion the financial statements present fairly, in all material respects, the financial position of the Ugu District Municipality as at 30 June 2009 and its financial performance and cash flows for the year then ended, in accordance with the Standards of GRAP and in the manner required by the MFMA

Emphasis of matters

Without qualifying my opinion, I draw attention to the following matters:

Unauthorised expenditure

9. As disclosed in note 46.1 to the financial statements, unauthorised expenditure to the amount of R55,6 million was incurred as a result of the unbudgeted flood disaster.

Irregular expenditure

10. As disclosed in note 46.3 to the financial statements, irregular expenditure to the amount of R5,8 million was incurred as proper supply chain management procedures had not been followed.
11. As disclosed in note 46.3 to the financial statements, irregular expenditure to the amount of R6,9 million was incurred as a result of non-compliance with section 67 of the MFMA.

Restatement of corresponding figures

12. As disclosed in notes 40 and 41 to the financial statements, the corresponding figures for 30 June 2008 have been restated as a result of a change in accounting policy and errors discovered during 2008-09 in the financial statements of the municipality at and for the year ended 30 June 2008.

Material losses

13. As disclosed in note 38.1 to the financial statements, water losses amounting to R33 365 000 were incurred.

Other matters

Without qualifying my opinion, I draw attention to the following matters that relate to my responsibilities in the audit of the financial statements:

Unaudited supplementary schedules

14. The municipality provided supplementary information in annexures E1 and E2 to the financial statements on whether resources were obtained and used in accordance with the legally adopted budget, in accordance with GRAP 1 *Presentation of Financial Statements.* The supplementary budget information and other supplementary information set out on pages XX to XX do not form part of the financial statements and are presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

Non-compliance with applicable legislation

Municipal Finance Management Act

15. The municipality did not comply with section 65(2)(e) of the Municipal Finance Management Act that requires all payments to be made within 30 days.

Governance framework

16. The governance principles that impact the auditor's opinion on the financial statements relate to the responsibilities and practices of the accounting officer and executive management and are reflected in the key governance responsibilities addressed below:

Key governance responsibilities

17. The MFMA tasks the accounting officer with a number of responsibilities concerning financial and risk management and internal control. Fundamental to achieving this is the implementation of key governance responsibilities, which I have assessed as follows:

No.	Matter	Y	N
Clear trail of supporting documentation that is easily available and provided in a timely manner			
1.	No significant difficulties were experienced during the audit concerning delays or the availability of requested information.	□	
Quality of financial statements and related management information			
2.	The financial statements were not subject to any material amendments resulting from the audit.		□
3.	The annual report was submitted for consideration prior to the tabling of the auditor's report.	□	
Timeliness of financial statements and management information			
4.	The annual financial statements were submitted for auditing as per the legislated deadlines in section 126 of the MFMA.	□	
Availability of key officials during audit			
5.	Key officials were available throughout the audit process.	□	
Development of and compliance with risk management, effective internal control and governance practices			
6.	Audit committee		
	• The entity had an audit committee in operation throughout the financial year.	□	
	• The audit committee operates in accordance with approved, written terms of reference.	□	
	• The audit committee substantially fulfilled its responsibilities for the year, as set out in section 166(2) of the MFMA.	□	
7.	Internal audit		
	• The entity had an internal audit function in operation throughout the financial year.	□	
	• The internal audit function operates in terms of an approved internal audit plan.	□	
	• The internal audit function substantially fulfilled its responsibilities for the year, as set out in section 165(2) of the MFMA.	□	
8.	There are no significant deficiencies in the design and implementation of internal control in respect of financial and risk management.	□	
9.	There are no significant deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations.	□	
10.	The information systems were appropriate to facilitate the preparation of the financial statements.	□	
11.	A risk assessment was conducted on a regular basis and a risk	□	

No.	Matter	Y	N
	management strategy, which includes a fraud prevention plan, is documented and used as set out in section 62(1)(c)(i) of the MFMA.		
12.	Powers and duties are assigned as set out in section 79 of the MFMA.	□	
Follow-up of audit findings			
13.	The prior year audit findings have been substantially addressed.	□	
14.	SCOPA/Oversight resolutions have been substantially implemented.	□	
Issues relating to the reporting of performance information			
15.	The information systems were appropriate to facilitate the preparation of a performance report that is accurate and complete.	□	
16.	Adequate control processes and procedures are designed and implemented to ensure the accuracy and completeness of reported performance information.	□	
17.	A strategic plan was prepared and approved for the financial year under review for purposes of monitoring the performance in relation to the budget and delivery by the District Municipality against its mandate, predetermined objectives, outputs, indicators and targets in section 68 of the MFMA.	□	
18.	There is a functioning performance management system and performance bonuses are only paid after proper assessment and approval by those charged with governance.	□	

18. There was a clear trail of supporting documentation that was easily available. The financial statements and management information were submitted timeously, but the financial statements required some material adjustments because accounts payables were not recorded in the correct accounting period, long-outstanding receivables were not measured at amortised cost less a provision for impairment, and expenses at year-end were included in the accounts receivable. The key officials were always available and had substantially addressed the prior year findings.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Report on performance information

19. I have reviewed the performance information as set out on pages xx to xx.

The accounting officer's responsibility for the performance information

20. In terms of section 121(3)(c) of the MFMA, the annual report of a municipality must include the annual performance report of the municipality, prepared by the municipality in terms of section 46 of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).

The Auditor-General's responsibility

21. I conducted my engagement in accordance with section 13 of the PAA read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008* and section 45 of the MSA.
22. In terms of the foregoing my engagement included performing procedures of a review nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.
23. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the review findings reported below.

Audit finding on performance information

Non-compliance with regulatory requirements

Public was not given notice on adoption of Integrated Development Plan

24. The Ugu District Municipality did not give notice to the public of the adoption of the Integrated Development Plan as required by section 25 of the MSA.

APPRECIATION

25. The assistance rendered by the staff of the Ugu District Municipality during the audit is sincerely appreciated.

Pietermaritzburg

30 November 2009

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence